2021 Full-Year Results
Transcript

Peter Harrison (Group Chief Executive): Good morning everyone. Welcome to the Schroders 2021 full year results. We have a lot of people online today, so we are going to try to mix it up between the room and online. It will be the normal format where I will take you through the big picture flows, Richard will take you through the financial numbers and then we will do Q&A both in the room and online.

Starting with the high-level numbers, you have seen these. The top line grew 18% profit before exceptionals, up strongly. Cost:income ratio down slightly. A number we are proud of, £35.3 billion of new flows. Importantly, the underlying drivers of this: strong performance in our private assets business, strong performance in wealth business but also good organic growth coming through from our traditional core business, and we shall talk more about that. The investments we have made over the last five years are really starting to come through across the business in terms of decent organic growth.

Getting into the detail, we are nothing without being able to produce strong returns as an active manager. We were very pleased with our three-year performance number. Last time we got together a year ago, it was 74% and today it is 79% of funds outperforming over three years.

What that means in practice; I have taken here the top 25 funds across our fund range. Over five years, these funds have outperformed their index by 16.1% net of fees, so as an active manager the importance of making money for clients is absolutely central and that is a good way of demonstrating what that 79% means to people in their funds.

Assets under management reached a new high of £732 billion. I have put on the right-hand side the mix of revenues across the business. Clearly, when you have a compound growth rate of 10% across your business, all areas are growing but what we are starting to see is those high margin, high longevity areas growing as an increasing portion of the group. I shall come back to talk about what that has meant for the longevity of our business and the stickiness of clients, but the dynamics of that virtuous circle of growth are starting to come through here.

In anticipation of the question, if you look at the AUM growth rate ex-joint ventures and associates, it is still 7% compound over that five-year period.

Just a quick reminder in terms of strategy. This chart won't be new to you, it is precisely the chart that we have shown really for the last five years. We want to get closer to our end customer to improve our client stickiness and avoid disintermediation. We are reinventing our core asset management business by doing more in solutions, more in the attractive contemporary products, more in sustainability, expanding our geographical reach so that we are doing more in North America and more in Asia, and what you are seeing is those areas coming through. Then, and we have talked a lot about this, we have the attraction of private markets and over the five years, clearly the markets recognised the attractiveness of that segment with both client longevity and revenue margin. That is the strategy. What I want to do now is link the results directly to this.

Here is our overall flow picture for the year. We saw £20.2 billion of new flows coming from our JVs and associates particularly in China and India, and I shall come back to talk more about that. On the right-hand side of this chart, you can see those high margin areas delivering £19 billion of net new business.

Institutional saw a small outflow but there was quite a lot of churn within that and actually our move towards higher margin areas within the institutional business, the net new revenues were £6 million that we earned in our institutional business. If you looked at our asset growth rate, you get to a 5% organic growth rate.

To my mind, perhaps the more important number, taking out the JVs and associates for a moment, is if you look at the annualised net new revenue coming from those five business areas, it was running at an organic growth rate of 7.3%. Therefore, the £145 million of net new revenues which is coming from the traditional asset and wealth management business is a 7.3% organic growth rate on net new business alone in 2021, a number that we are really pleased with because that, if you like, is paying the bills this year but also providing the base for future years.

Clearly, I'll just give you the stats for this if you look through a geographic lens or a product lens. Private assets and alternatives saw £6.9 billion of inflows, our equity business saw £3.8 billion of inflows, our fixed Income business saw £2 billion of inflows and multi asset was out by £1.7 billion.

Within equities, the major areas of inflow were global, it was global equities, major areas of outflow was quantitative equities, so there was a nice mix change within there.

The other areas to talk about is geographically we saw Europe was the strongest market; £7.1 billion on inflows into Europe. £5.3 billion of inflows into North America, both retail and institutional. The UK saw small outflow, as did Asia ex-associates of £0.2 billion. The UK was £1.2 billion out. Clearly the Asian business was flattered very much if you add in joint ventures and associates because we saw £20 billion of net inflow into Asia.

To my mind, a really rebalancing of the group but growth where we wanted to see it, and as I say, that underlying revenue growth rate of 7.3% compound in the organic business.

We talked a lot about trying to reposition the business into areas where there is fast flowing water and this has not got the consolidation adjustments in, but I wanted just to demonstrate those areas that we talk about in strategy saying, 'we can see new growth in those'.

If you look, we talked about the joint ventures, but Schroders Capital, our private assets business, so this is without the alternatives, saw £7.4 billion of inflows and that's before £2.5 billion of dry powder which we have not invested and we don't include in our assets under management.

You will recall, for those of you who attended our Capital Markets Day, that we said we would be able to achieve growth of £5-8 billion for Schroders Capital business. We have done that and in fact if you think about the dry powder, we have actually exceeded it, but we have done that here.

Article 8 and 9 funds, those funds which are focussed on sustainability in Europe, it's £5.7 billion of inflows. Thematic funds, an area of big growth, £4.4 billion of net inflows. Wealth management I will talk more about. North America as we said is a strategic priority, again very strong inflows both in North America and in South America, areas where we have put in organic investment, and we are now seeing the payback from those areas.

To my mind, what this is demonstrating is the strategy we have put in place is coming through across the areas that we would expect it to do so.

And if you look at that in a bigger picture and go back to those things, the areas we have talked about, private assets, wealth, solutions, those have more than doubled over this period and I think to my mind it's that rebalancing of the group which is going on nicely. From Richard and my perspectives, the more we can do that, the more that enables the revaluation of the business to be driven by the quality of the earnings that are coming through.

Just going back into Wealth Management, to my mind we have set out again at Capital Markets Day that we hoped to achieve 5% organic growth rate from next year. We have actually achieved it this year. We are 5.7% organic growth rate.

We have excluded from that number another £0.6 billion of MPS flows because that's serving existing clients that didn't fit our definition of NNB but nevertheless, even without that, that 5% growth rate has been achieved.

Just quickly in terms of that breakdown, I've shown it on these charts, what was important to us was that the Schroder Personal Wealth business, having been in outflow for many years, has turned positive. We saw a very significant change in the Lloyd's rate of referrals. So if you go back last year we had 22,000 referrals, this year we have had 56,000 referrals and 103,000 meetings, I think if I recall correctly, so we are starting to get to this business to becoming industrial scale. But once you have turned that corner on net new business, our confidence of seeing that grow nicely from here is clearly growing stronger and stronger.

I mentioned I would come back to Joint Ventures and Associates. This has been clearly an important part of the driver, but it is increasingly a dependable part of our business. In India, we are now the largest equity manager, our market share increased from 5.6% last year to 6.7% this year and the BOCOM FMC joint venture, assets increased 32%, so India and China growing strongly, and we see it as a potential for future growth, that being clear.

Now, the bit that we haven't yet got on these numbers is the launch of our WMC. That formally launched on 28 February. The first products will be launched early in April. We anticipate that being a significant additional driver to growth going forward, and then later in the year, we will launch our wholly owned FMC business, which we expect will take longer to ramp up. Nevertheless, the WMC, which is a 51% owned business we think will ramp up pretty quickly. So overall, those business all demonstrating good growth, and I think the dynamics of future growth also looking strong.

The issue on sustainability is not new to anybody here, and I put just a few proof points on this chart because I think it has to be taken in the round. There is no single answer that demonstrates whether or not you are good at sustainability or not but, to my mind, what we are able to look at is we are the only major asset manager to have set a science-based target, have that approved, CDP rating of A- is a very strong rating, MSCI rating of AAA, £5.7 billion of new flows in sustainable assets. The acquisition of Greencoat last year, I think looking increasingly timely, not only clearly you are going to see a very rapid acceleration of renewable energy in Europe for very tragic reasons, but that trend is just going to be accelerated. Also, if you think about the change to Solvency II regulation, is going to enable a wider set of insurance assets to also want to invest more into renewable energy. So net of our efforts here coming through very strongly, our brand in this area performing very strongly, our engagement with clients being very strong, and I think this is a critical battleground to win. You have to be good at it as a business, but you also have to be good at it as an investor.

Private assets; final piece of those variables. I have mentioned £7.4 billion of flow from Schroders Capital. You will hear later that following on from the acquisition of Greencoat, we think it is appropriate to increase that objective we set in the past. So, we previously said we thought we could do a £5-8 billion of new business growth a year. To my mind, that number probably needs to be nearer £7-10 billion of net new business growth a year, so we will change our guidance on that because not only do we do £7.4 billion of growth but we also had £2.5 billion of dry power, and just to reconcile for you that number difference, Schroders Capital did £7.4 billion, we had a small outflow from our liquid alternatives business, which is why the division is £6.9 billion of flows, just to tie those two numbers up.

We have talked a lot about the importance of creating more client longevity, and I thought this chart just tried to make that point very clear to you, in terms of what the impact of the changes we have had made on the business. It looks at our outflows as a percent of our assets. So, our longevity may have gone, over the last five years, from 4.1 years to 5.3 years, but the stickiness of our assets, so for every £100 billion of assets, 25% used to flow out every year previously. Now that number is 17.6%. That, to my mind, means we are running a lot less hard to stand still and it is one of the key differentiators. If you benchmark those numbers against the rest of the industry you will see we start with an inherently stickier book of business, which means that the sales that we make are much more likely to translate directly into net new business, rather than just gross inflows. So I think a metric which isn’t often measured, but a really important one to draw your attention to, that transformation working through, and I think given the changes we are making we expect that to carry on flowing through into future years.

We have obviously done a bit more this year to drive that strategy harder. I think we have made three strategically important acquisitions. I just want to spend a moment talking about the rationale behind those.

I will start with River & Mercantile, because that was a really important acquisition. In the UK fiduciary management market, when the CMA came in and reviewed that market, it was very clear that there was an opportunity for a new entrant to be more disruptive, to enable a more rapid scaling of UK pension funds wanting to transition towards buyout. Clearly, a lot of that will be done through private assets as well. We acquired the River & Mercantile business, fantastic to see, I don't know whether anyone saw the Pensions Age Awards last week, both Greencoat; Alternatives Manager of the Year, and River & Mercantile; the Fiduciary Manager of the Year, so clearly, we got something right.

What has been really interesting is that, since we acquired that business, we have already won a number of new mandates. Now anyone who knows the pension fund world, you don't win new mandates immediately after a change of control, but I think what you are seeing are the clients saying that the combination of Schroders and River & Mercantile makes really good strategic sense and having a new competitor in that space is unlocking a lot of pent-up demand. It is an important acquisition and one where we expect to see follow-on growth. It is also a really important acquisition from a Solutions perspective, because the duration of these assets is nearer 17 years, so again pushing on that point of stickiness of assets.

Greencoat, for very different reasons. More and more clients are engaging with us, asking how do we go on the decarbonisation journey? The very obvious thing for them to do is to own more negative carbon assets and renewable energy assets. Clearly, Greencoat has performed very strongly in the past and we would expect to see good inflows in the future, hence the reason we have upgraded our private asset target of future growth. It is an important and rare asset in being able to offer that full suite of products to clients. There is a really important point here: there are very few, virtually perhaps one other asset manager, that is able to engage with clients right the way through from an LDI perspective, all the way through their public equities and all their private markets engagement. That total engagement is becoming more and more important to clients as you say ‘how do I solve the whole of my investment problem’?

If you think about a world where returns are low and inflations are high, we expect strategically that market to grow very significantly, so being able to fil all these pieces so you can have that holistic engagement will position us very strongly.

I should mention Cairn, not because it was a big acquisition, but because, strategically, it provided the missing piece of our European real estate. We didn't have a Dutch real estate capability and we now have a pan-European real estate capability; in every country we are strong, so that will unlock both Dutch demand but also pan-European demand which is an important step. We feel that we have made good progress in building out the last bits of our private asset jigsaw over the course of the last 12 months.

What does that mean as far as that virtuous cycle? As we have done more in these three areas, it has enabled us to do yet more and more. When we did the Lloyds transaction, off the back of that Schroders Personal Wealth we have been able to open up a regional network for Cazenove. We have also been able to open up a major family office business for right at the top end of the market. We have become a lot closer to consumers from the £100,000 client right the way through to the £500 million client and that virtuous circle has been reinforced.

We have put organic growth into our asset management business, and this is really important because this is a business which most analysts said was going to struggle; it has major pricing power, indexation etc but through launching the right products, growing in the right geographies, making that organic investment, we have seen good organic growth coming from those areas. With the WMC launching this year, with more sustainability product, more thematic product, with 79% of our funds out-performing, we are demonstrating that you can grow as a good active manager.

Finally, we have built out the suite of private asset products and now putting our solutions capability on top of it, combining them together into an income solution or a holistic private markets product for smaller pension funds, we are able to really address the markets that perhaps others aren't able to get to. That strategy is starting to open up and, as we have gone through, it opens up yet more optionality to do more in other areas, so we are pleased with the progress this year, not just from an operations perspective but also because strategically I believe we are starting 2022 in better shape.

Lots of good things happening, I have touched on many of them but the one I probably haven't spoken enough about is the importance of talent.

You will have read lots of words about talent retention and I can say that our talent retention has remained at an extremely high level: 84% of our employees are shareholders, our talent retention rate is over 94%. It feels to me that we are in a good position to carry on retaining the people who have been driving the strategy, which, frankly, is the most important thing from a delivery perspective. With that, I am going to hand over to Richard who will talk more about this year, and I shall come back to talk about the outlook and we can go from there.

Richard Keers (Chief Financial Officer): Thank you, Peter. Good morning, everybody. I am really pleased to take you through what I believe are a very good set of results. This performance reflects a lot of what Peter has talked about already.

In particular, the results show firstly, very good growth in our strategic focus areas of Private Assets and Wealth, secondly the success of our ventures with BOCOM and Axis and thirdly, high growth in our core Asset Management business, especially in Mutual funds which were in high demand.

As a result, we delivered profit before tax and exceptional items of £836.2 million which represents a new high and our profit after tax increased by 28% to £623.8 million. Now for some more detail, starting with net income.

Net income increased by 18% from £2.2 billion to £2.6 billion. The largest component of this was the increase in net operating revenue which grew by £350 million to £2.4 billion.

As you know, average AUM is the main driver of our net operating revenue. This increased by 15% to £597 billion, excluding Joint Ventures and Associates in our Asset Management segment. There were two main reasons for this. The first was the rise in markets, which net of currency headwinds, drove an increase in average AUM of around £55 billion. This translated into £204 million additional net operating revenue.

Secondly, our net new business led to an increase in average AUM of approximately £20 billion. This generated £101 million in additional revenue, including a tailwind of £14 million from net flows in 2020. Turning to 2022 for a moment, we have a tailwind of £58 million at the start of the year, due to the net new business we won in 2021.

The next largest increase in our net operating revenue came from performance fees and carried interest. As you heard from Peter already, we delivered strong investment performance for our clients during the year. This enabled us to grow performance fees and carried interest by £31 million to £126 million. £23 million of this increase came from carried interest, an important part of the overall contribution from Schroders Capital, and virtually all our performance fees are earned from institutional clients. Looking at performance fees and carried interest over a five-year period, you can see that normalised level has increased over time. This time last year we increased our guidance to £70 million based on a three-year rolling average. The three-year average has now grown to just under £100 million, highlighting the increased value of this revenue stream, although given the markets in January and February, if I were you I might haircut this back to last year's guidance.

Now let me talk you through how all this breaks down by business areas, starting with Wealth Management.

In October, we explained how we were building our Wealth Management business and its significance to the overall group and the segment has shown good progress during the year. This is illustrated by the growth in annualised net new revenue that is shown on this slide. Average AUM increased by 17% to £76 billion which drove an increase in management fees of 21%.

Net operating revenue increased by 15% to £421 million. Within this figure, the growth in management fees was partly offset by some reductions to transaction fees and net banking interest. Peter has talked about the progress SPW has made during the year. It's net operating revenue increased by 12% as it started to emerge from pandemic-led constraints. Across the Wealth Management business as a whole, the net operating revenue margin, excluding performance fees, decreased to 55 bps. That's slightly less than the guidance we gave at the Capital Markets Day, but you should note this reflects only the effect of roundings either side of 55.5 bps.

For 2022, as we entire a higher interest rate environment and as we see other fees return to more normalised levels, we expect the margin to increase to around 56-57 bps.

Now moving on to the business areas within our Asset Management segment, starting with Private Assets and Alternatives. Peter has already highlighted that the strong net new business we generated within Schroders Capital more than offset small outflows in liquid Alternatives. As a result, average AUM increased by 9% to £49 billion. Net operating revenue increased by 20% to £351 million, including £44 million of carried interest and performance fees and £11 million of real estate transaction fees. This translated into a net operating revenue margin of 72 bps.

Excluding carried interest and performance fees, the margin was 62 bps which is in line with last year.

In 2022, we expect this to reduce due to the change in mix and the onboarding of the Swift real estate mandate. However, the acquisition of Greencoat later in Q2, should increase the margin back to 62 bps for the year as a whole.

Now moving on to Solutions, average AUM increased by 12% to £193 billion driven by strong investment returns. This drove an increase in net operating revenue of 9% to £276 million. The net operating margin was 14 bps, in line with my previous guidance, we expect this to reduce by a bip in '22 as the impact of the £43 billion of AUM we acquire to the acquisition of River & Mercantile comes through.

This transaction is a testament to the continued importance of our Solutions business, the assets which have higher longevity, as you have heard from Peter just now.

Next on to our Mutual Funds business.

Peter has already talked about the high level of demand from mutual fund equity products we experienced throughout '21. This sustained the strong momentum that I highlighted to you at the start of the year, and you can see the impact of these flows and our analysed revenues on the chart. These flows together with strong investment returns resulted in average AUM increasing by 19% to £113 billion. In turn, this drove an increase in net operating revenues of 19% to £815 million.

Excluding performance fees, the net operating revenue margin for the year was 72 bps. That is a bip higher than last year due to the mix impact on net new business and markets. We expect this to reduce to around 71 bps in 22 due to continued fee headwinds. But as ever, the impact on markets and business mix may also have an effect.

Finally, on to Institutional business area; in total net operating revenue for our Institutional business increased by 17% to £601 million as a result of strong investment returns. Average AUM increased from £143 billion to £166 billion. Those investment returns helped us generate £79 million in performance fees. Excluding those fees, the net operating revenue margin increased a touch to 31 bps in line with my guidance from the half year. We expect the margin to be up to a similar level in '22.

So that covers off the key movements in that operating revenue.

Let's return to the net income bridge. We generated net investment gains of £57 million. This principally comprises returns on both seed capital and the co-investments we make alongside our clients in our private asset funds. Given market returns since the start of the year, we wouldn't expect to see the same size gain in '22.

Moving on to returns from associates and JVs. Our associates and JVs continue to perform very strongly, and this historical trend highlights the success of our investments in these businesses. Over this period, our share of profits has increased by a compound annual growth rate of 28%.

In 2021, the AUM of these interests increased by over 30% to £116 billion and our share of profits increased by 48% to £75 million. That represents 11% of the Group's profits as whole, underlying their significant contribution to the Group's performance.

Our existing venture with BOCOM again performed particularly strongly, with our share of profit increasing to £60 million, driven by greater AUM, and a shift in a mix of assets to higher quality equity products. That increase in quality is also true of Axis and contributed to an increase of overall revenue margin for these interests increasing from 35 bps to 39 bps.

So overall, our total segmental net income increased by 18% to £2.6 billion.

Moving on to our operating expenses, starting with compensation costs. This time last year I talked about the investment we were making to build our two key priorities for us –UK regional wealth and China. At the time, I expected this to represent around 1% of our income, and for the total compensation ratio to therefore increase from 45 to 46%. The strength of our financial performance this year has however enabled us to keep the ratio at 45%, and we expect to remain at this level for 2022.

Non-compensation costs for the year increased to £565 million. That is higher than the guidance I gave you at the half year, and therefore worth a bit more detail from me. The main driver is our decision to accelerate our Cloud migration programme. The majority of these costs cannot be capitalised under accounting rules. This acceleration means we will have migrated the vast majority of our estate within the next two years.

Importantly, we expect the programme to drive cost savings on a like-for-like basis of at least £15 million per annum from 2024. The transition to the Cloud will deliver other benefits, improving our speed to market, providing better data and insights, increasing our resilience to cyber risk, and also resulting in a very significant reduction in real world emissions. Together these benefits will provide us with a competitive advantage, and I want to re-iterate that transition is going to take two years, we really have accelerated that programme and we believe it is the right time to do that.

You have heard me say on a number of occasions that our non-comp costs as a percentage of our average AUM gives us a good indication of operational leverage. It is true that the acceleration of our Cloud programme has had a dampening effect, but in spite of this, the percentage has continued to fall.

For 2022, we expect non-compensation costs to increase to around £620 million. There are four key components of this. First, the variable costs that are linked to the growth of the business and AUM. Increasingly we are changing our own non-comp costs to the software as a service. Aladdin is a good example, Salesforce is another, Oracle in the Cloud. The variable nature of those costs is increasing.

Second, the acquisitions we have announced, they are substantial businesses that come with costs, along with the continued build-out of our China businesses, particularly the FMC in 2022.

Third, marketing expenses. They returned to more historical levels with the easing of Covid-related restrictions. But importantly, we have something to talk about. We have a great sustainable range, we have fantastic investment performance. We took the decision that we are going to increase and market those to generate new growth in 2022 and beyond.

Finally, the year two costs of investment in our Cloud migration programme. Before I finish on non-compensating costs, it is worth noting that we expect our travel costs to remain at about half pre-Covid levels, they are normalising to an extent. they were basically nothing, but half what they were pre-pandemic. This, in part, highlights our ongoing commitment to reducing our carbon emissions.

Let's move on to our group capital position. The sustainability of our business model has enabled us to build a strong capital position. At the end of 2021, we had a capital surplus of £1.5 billion. But we are using some of this to invest in the three strategic acquisitions that we have already talked about. As the transactions were not complete during 2021, they are not reflected in our year-end capital position but we expect that they will reduce our 2022 capital surplus by approximately £760 million.

In summary, and pulling all the key numbers together; we generated a record profit before tax and exceptional items of £836 million, an increase of 19% on the prior year. We had exceptional items of £72 million, a decrease of £20 million. These are acquisition-related, principally amortisation of intangible assets. For 2022, we expect these to increase to around £100 million, mainly as a result of the three acquisitions we have already talked about.

Profit after these exceptional items was £764 million. The tax rate after exceptional items was 18.4%. We expect this to remain at around this level in 2022 but, as usual, the mix of our profits may affect this. This resulted in a post-tax profit of £624 million. That represents an increase in our post-exceptional EPS of 28%. Reflecting our progressive dividend policy, we have declared an increase in the final dividend of 6 pence per share, meaning a total dividend per share of 122 pence.

Overall, as I said at the start, we see this as a strong set of results. Now back to you, Peter.

Peter Harrison: Thanks, Richard, the outlook. It is a challenging time to give a clear outlook given what is going on in the world. The world is paddling hard, but we believe that the strategy has addressed many of the chinks in the armour of asset managers.

If I look at the primary drivers of growth historically, we have upgraded our Schroders Capital forecast today to £7-10 billion of growth. We have exceeded our Wealth Management growth commitment, even excluding the MPS additional assets, so both of those we feel very comfortable about giving a renewed commitment to those.

We know we have launched the WMC which will kick off later in the year but it is hard to predict how much. You will have seen Amundi which is quite an analogous business, the scale of their business over the first year and whether or not that is a benchmark I don't know but, certainly, we believe it’s going be meaningful in the context of our results.

We have materially changed our mutual fund range and we believe it is highly attractive with 79% of funds out-performing across the Group but, importantly, they are in areas where we believe there is fast-flowing water. Positioning our asset management business into fast-flowing water is particularly going to be helpful with Schroder Solutions we believe, and we are already seeing a good growth of the pipeline there. So the underlying drivers of the business are all looking positive.

Then there is a "but" - the macro environment. That is the challenging piece, to try to reflect how what is going on today; higher energy prices, higher inflation, a redrawing of geopolitical risk going to impact on markets. Everyone in this room will have their own views on that and, clearly, it is not an unimportant judgment. But, we do believe that we are incredibly well-diversified. We are in the areas of fast-flowing water. The resilience of the business has improved very significantly as a result of the management actions we have taken, so we feel good about the underlying but we cannot predict the short-term.

Before I go and in anticipation of the first question, let me answer it. Total Russian assets, including Belarus, including debt, equity, amount to less than 0.1% of our total assets under management. We had, if you recall, a Russian desk in our Wealth business, we sold that in 2018. It felt like the right thing to do then and it feels even more right today to have done it today. So our Russian exposure is very, very *de minimis*, which is probably the right phrase for it.

So we're going to move to Q&A and start with questions in the room if I may. If you could please wait for a microphone so that people can understand fully and please state your name and firm, and Richard and I will do our best to answer your questions.

Question and Answer Session

Hubert Lam (Bank of America): Good morning, I have three questions. Firstly on WMC, I know Peter you mentioned it, but what should be our expectation for flows near-term and medium term?

Obviously this is brand new so all the gross flows you will be getting will be net, so theoretically it could be quite good for this year. I am just wondering how should we think about that and also can you remind us on the medium-term guidance in terms of assets or flows for WMC, that would be great.

And the second question is on ESG. I think it's the first time you have disclosed your ESG flow numbers and asset numbers, so you have £5.7 billion for last year; what are your expectations for this year? Do you expect it to be at least the same amount and also how much of that is really net flows, because I assume some of that would also come out of your non-ESG assets, so maybe the net number, excluding the outflows you lost in the non-ESG would be a lower number. I am just wondering how we should think about that.

And lastly on M&A, I guess surplus capital is probably close to about £700 million now if you include the deals that you are going to be paying for, but how should we think about deals going forward?

You did a bevy of deals at the end of last year. Are you going to kind of sit tight for the time being or are you still hungry to do deals even though your surplus is much lower now? Thanks.

Peter Harrison: Hubert, thanks. Richard, do you want to kick off on guidance for WMC?

Richard Keers: Hubert, we don't normally get drawn on giving too much guidance on flows. I know we've changed our tune slightly in the Capital Markets Day for Wealth and Private Assets, but historically we have never really guided to what we expect in such a short period of time. Peter referred to this business is very similar to the WMC launched by Amundi about a year ago and you will have seen what they delivered.

Peter Harrison: I think €11 billion over 15 months was the number.

Richard Keers: Yes, so that's almost the best guidance I can give you. It's difficult, it doesn't start until April. I think when we sit here at the half year we can talk about how the first few months has progressed and we will be in a much better position to give you a more definitive view of how the first few months of trading has arisen.

Peter Harrison: We are not trying to be awkward, we don't know. Obviously we have done it because we think it's a significant new business and we have a great partner who has been very good at raising funds in the FMC but let's wait and see.

Just on ESG, we have split out the £5.7 billion. That's if you like the Article 8 and 9 definition of it. Obviously it doesn't include things like what we are doing in private markets, it doesn't include what's going on in BlueOrchard, it obviously doesn't include Greencoat and it's very much a narrow, mutual fund answer to the question.

I think a bigger point though is if you think about Mutual Fund World, Article 6 we are increasingly going to see as stranded assets, that we are not going to see flows into Article 6 funds. The new world is all going to be - and we have seen it with many European distributors saying, that if you haven't got an Article 8 or 9 equivalent, then they'll will move on and get it from somewhere else, they can't be seen to be allocating to Article 6. So it's going to be quite hard to underline the clear trend, but what we are seeing is that we have 15 new funds planned in that area, we now have choice for every major area that people want to allocate to. If you wanted previously to go into global equities you can now go into global sustainable growth, global sustainable income, global sustainable value, so there is a full range.

Our view is that we need the whole business to be capable of delivering across the piece, so in three years' time we are not talking about ESG. It's just everything is there and that's why we've changed everything to align to it. Your point is exactly right; really hard to predict, but it will be increasingly dominant in our flows going forward because we are going to see a run-off on the other side of the book.

On M&A, given the timing of the last two transactions were the back end of the year and they were both a bit bigger than the average transactions we have done in the past, plus Cairn, we are very focussed on the implementation of those, so the pipeline is quite quiet at the moment. I think we have always been driven by finding really high quality businesses where there is a good cultural alignment and it's really hard to predict when they become available. So we are not active at the moment, but we do believe that if we look back at the track record of the businesses we've bought, we haven't bought a bad one and we have seen really good follow-on growth from all of them and that has been a really important part of creating a new set of DNA in the firm, so we are alive to it but should you expect it in the coming months? No.

Richard Keers: Perhaps, Hubert, I can go back to the WMC and I don't want my answer to sound like we don't have confidence in it. We are very excited by the opportunity. We have invested a lot of money, we have built the business, it's staffed up and we think it's a really exciting opportunity over the next five years.

Peter Harrison: And we're very early in it as well. From a market perspective, there are probably , I think, three of these in existence of that sort of thing, so there isn't really much precedent but it feels as if there is a lot of fast flowing water in that segment and backed by regulation.

Can we go to the next question?

Mandeep Jagpal (RBC Capital Markets): Good morning. Thank you for the presentation and taking my questions. First one is just on the new targets for Schroders Capital; I think you said there were £8-10 billion. I think the previous targets were £5-8 billion?

Peter Harrison: Yes, £7-10 billion I meant to say.

Mandeep Jagpal: About the moving parts there between the old guidance and the new guidance, is it all Greencoat or are there other moving parts in there?

The second question is just on Solvency II reform, so it is taking with private assets. Last week the UK Government announced more flexibility in the matching adjustment within Solvency II, do you expect this will increase demand for liquid assets from your life insurance clients over time, and could see a further upgrade to your target for private assets?

The final question is just on ESG; I think you mentioned last year that you were targeting 75% in funds in Article 8 or 9. I was wondering if that was achieved or how the expectation has progressed since then?

Peter Harrison: What we haven't done is we haven't broken out the £7-10 billion in private markets, but our thinking is that it should be a £2 billion addition for Greencoat. What we are not doing is increasing the underlying thinking particularly, so it is more a reflection of the fact that we have bought the Greencoat business, but I have to say that from a run-rate basis the fact that we were able to do £7.4 billion with £2.5 billion of dry powder, it did make the old target look comfortable. I think we are slightly early in the build-out of our Solutions business to change our guidance on that, but it is fair to say we have invested very heavily in how we bring those products together, so it is something that we are increasingly confident about the strength of that business, I think it is probably fair to say, but we are not going beyond £7-10 billion at this stage.

Your point on the matching adjustment for Solvency II is absolutely spot on. It was designed by the British Government to try and drive more risk assets into insurance businesses, and that is for very good economic reasons, but also good for policy holders, and I think the inevitability will be that you will see more in private markets, and that has to be a good thing.

I think the other thing we haven't spoken much about is that if you think about the average UK DC fund in the UK, it is not participating at all in the real strength that we have. Take our life science industries which are full of brilliant discoveries, more Nobel Laureates than anything else, and yet, our UK market is not reflective of that, and our DC funds are not getting exposure to private markets. You should expect, I would hope, that there will be changes that enable more of those assets to be channelled into those attractive private companies that they are not yet. That is something we feel strongly about, for UK savers to benefit from the scientific achievements, the FinTech businesses in the UK, you have got to have a flow of capital coming from DC. So I think that is the other potential change that will come on top of Solvency II that sees more growth in there.

I don't have the exact number on ESG. We have certainly made a huge amount of progress. Whether it is 75%, we can come back to you on that, but if you think about the pipeline we have coming through of new launches as well, the momentum there is very significant indeed.

Any more questions in the room? I can't see who is online, but very happy to take questions from online.

Haley Tam (Credit Suisse): Congratulations on a strong set of results, and thanks for taking the questions. I had a couple please. One is a follow-up on the private assets, the new target of £7-10 billion, I guess would observe £2 billion seems like a big change on a £6.8 billion acquisition, so I guess any comment you can give us there would be appreciated. Also Richard, I think you indicated Greencoat earns a much higher revenue margin than the rest of that business, so help us understand how the mix might affect your margin progression in longer-term. Could you help us with what the margin actually might be at Greencoat?

A second question just in terms of costs; again, thank you for the clear guidance of the non-comp costs, could you give us any idea of how much of that £620 million is variable linked to AUM, as you mentioned and also how much of the increase from £597 million is actually discretionary, that you potentially could hold back if market conditions actually required it?

A cheeky third question on sustainability and impact; is there any more colour you can give us on exactly how you have implemented Articles 8 and 9 for existing funds that you have converted? I guess I am just trying to understand that process and understand how confident you are you would be protected against any future greenwashing risks which was obviously a hot topic until about 10 days ago. Thank you.

Peter Harrison: Thanks Haley for your comments. On Greencoat, you are right in so far as for a £6.8 billion business, the prior year they had grown by £1.9 billion of assets, if I remember rightly, it was of that order, so it is not an unachievable number. The bigger point here is that Greencoat has moved from being predominantly UK and Ireland into doing much more in Europe and the US, which we see as a significant accelerating factor. Clearly, part of their thinking was that Schroders provides the resource to expand our capability from a UK investment trust background to a much broader source of capital but also a broader source of wind farms and solar. So, those build-outs in Europe and in the US are underpinning our confidence in accelerating that growth and then, obviously, Solvency II is a bit of icing on the cake. Richard, do you want to take the point on revenue margins?

Richard Keers: On revenue margins, again Haley, we don't like talking about margins as a sub-component of business areas; it is hard enough giving guidance on business areas as a whole. What I am confident about is that with an acquisition towards the end of April, we will improve the average margin enjoyed by the business by about a basis point. Projecting forward, you could see that going another basis point but it is difficult looking out that far in terms of the competitiveness in the marketplace and the relative mix of what is driving new business in 2023. However, all things being equal, it is no doubt true that Greencoat is a slightly higher margin business and will have a small incremental improvement factor.

In terms of your question on non-comp and how much of it is variable, it is increasing. Some is very variable, Aladdin is charged as a percentage of AUM and others are softly linked. I am not being evasive but it is difficult to be precise. I would say that £100 million of that number is increasingly very much correlated to the AUM we are running.

Peter Harrison: On Articles 8 and 9, Haley, it is a really, really important question for us. Not a day goes by, as you say, until 10 days ago, where you couldn't open the paper and say this is going to be a source of legal action, and that is the one thing that we absolutely do not want. So we have invested very heavily in our own data and we have done it from a data-led perspective. You will be aware that we have a proprietary tool, SustainEx, which we believe is as good as it gets. We have had 20-odd data scientists working to make sure that our data are state-of-the-art and we can demonstrate from first principles that the SustainEx scores of these businesses and funds exceed t of their benchmarks. That has been an important validation point as we have audited the process to make sure that what we are doing is (a) clearly auditable and (b) backed by data rather than hand-waving. We do believe this is a difficult area and people's views differ, so you need to be able to get back to underlying data.

Also you need to be able to demonstrate the engagements. One of the things I showed on the chart was 2,000 engagements, we have significantly grown our engagement team so that we are able to work with businesses (a) on what they are doing but (b) to get more data. Joining a number of coalitions and sponsoring quite a lot of change in this area has been important, so we feel very comfortable about the position we are in. We have independently verified the integration into our teams to make sure we are on top of what we say we are doing is actually what we are doing.

Richard Keers: One of Haley's final questions was about avoidable non-comp costs. Ultimately, we can avoid a lot but it will damage our business. If we are half-way through a major programme like the Cloud migration that will deliver £15 million of savings every year from 2024 onwards, yes, we could stop that programme but it would seem absurd to cut that investment given that it has a very quick payback period.

Marketing costs is the one key variable that we move up and down depending on the market conditions. It's moved from £33 million in 2020 to £40 million in '21. Now some of that we need to do but clearly that is more discretionary in nature. Have we got something good to market, can we see the return on investment? We certainly made a key decision at the halfway stage last year; we had great investment performance, sustainability was increasingly important, Private Assets we wanted to rebrand. That's the living future of revenue growth, so we made the decision to increase our marketing spend back to pre-pandemic norms, but clearly we can move that back down or we could increase the investment further, depending on market conditions.

Peter Harrison: I think that's the external spend. We obviously spent a lot more on internally generated content, etc. The next question.

Luke Mason (BNP Paribas Exane): Just a few questions; firstly on the Private Assets target for £7-10 billion. I am just wondering if you could comment; would you see any impact from market or macro on that type of target or do you think it's pretty set in stone? Could you talk through the pipeline of some of the larger fund-raisings within that, for example?

Secondly just on the WMC business, could you quantify the cost made to date in that business or how we should think about a timeline to profitability?

Then thirdly just on Schroders personal wealth, so flows have turned positive for the year and you talked about the increasing confidence in that business. I am just wondering if you are seeing any change in the competitive environment or some of the D2C players coming out with robo advice-type offerings, so I am just wondering if you could comment on that. Thank you.

Peter Harrison: Thanks, Luke. I think the private asset target, clearly if the world stops completely, then yes, there is an issue but a more powerful trend is for clients to need to re-up, for clients to need to rebalance their portfolios and many, many of our programmes that we have are sustained multi-year programmes, so that is a much more resilient target than perhaps predicting mutual fund flows from one month to the next.

The other benefit we're having is that as we have launched a lot of organic strategies, you go from fund one which by definition is £100 million, £200 million to fund two which might be £700 million or £800 million to fund three which you are able to raise a couple of billion and in many strategies we are at fund three. In infrastructure debt for example, we have fund three coming. Fund two actually got to be the largest infra debt fund in Europe, JULIE II, but JULIE III we think will be significantly larger. Our FOCUS II which is a securitised fund again was a significant fund but we think fund three which is coming this year will be larger and in private equity there are some good programmes coming through there. There are also some good separate account business as well in pension fund world.

I think on balance we are comfortable Luke because as our business matures, we are riding up that curve and if we hit the targets then we will get to be a top ten player in Europe this year which would be a really nice achievement, so it's moving through quite quickly.

The WMC, I think in terms of profitability, we are more than happy to disclose on that.

Richard Keers: In terms of profitability, obviously it depends. We have no revenue yet so we haven't won any funds, we haven't launched those yet but I would anticipate it's going to be around breakeven in 2022 and if it continues to grow you should expect to see a strong profit contribution in '23, but broadly flat in '22.

Peter Harrison: I think Hubert's point that net equals gross is an important consideration in terms of the build up of profit.

Richard Keers: The reason why it's flat in '22 is revenues haven't started and it's fully built out in terms of cost space. It has premises, it's hired all the people.

Peter Harrison: And it's got four months of not trading.

SPW; I actually think that in SPW, the trends are you are right insofar as there is a lot of new launches but we are not seeing the impact on the business because the state of the UK advice market, there is still a vast number of people who are not yet advised and there is a great deal one can do in terms of taking them through their advice journey and improving the outcomes that they have as a result.

We observe there's quite a lot of activity digitally, there's been an awful lot of M&A. We were beneficiaries of selling our Nutmeg business to JP Morgan last year, our stake we had in it. We observe other businesses changing hands but I think the advice-led business in the UK has very good growth. We have seen that from SJP's figures and we are growing the market. The fact that we have Lloyd's referrals and a Schroders brand and product range is very helpful, so the key thing now is to turn those referrals and increase the conversion rate of meetings, which is exactly the work going on at the moment. We feel comfortable about the increase in growth rate there.

Luke, thank you. Any more questions?

David McCann (Numis): Just one on the non-voting shares; you have probably observed they are now close to a 40% discount to your voting shares, I just wondered if your company had any intentions to try and do anything about that? It would seem to me that you still have a decent amount of surplus capital left that would be a pretty accretive transaction you could do there with basically zero execution risk, given that it is your own business that you already know, so just wondered if you had any thoughts on anything you can do to close that gap?

Peter Harrison: Thanks for that. The discount has moved out in this market turmoil and it is something that we do keep an eye on, but we are not announcing at the moment any plans specifically, and obviously this wouldn't be the appropriate audience to announce it to, but we do keep it under review, and always have done.

[*No further questions*]

Thank you, everybody. I am very conscious it has been a full hour, so thanks for all your questions. Thanks for those attending in person and your questions, and look forward to seeing you next time. Thank you very much.